A Relation between Financing Shariah Product and Asset Quality an Evidence from Indonesia

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ABSTRACT: Asset quality represented through non-performing finance can also be affected by financing products owned by Islamic banking. By performing regression analysis on 4 Islamic banks in the period 2012-2020, it was found that each financing product has an effect on non-performing finance. Murabaha had a negative and significant effect on non-performing finance, Ijarah had a positive and significant effect on non-performing finance, Mudharaba and Musharaka had a positive and significant effect on non-performing finance.

KEYWORDS: Financing Product, Non Performing Finance, Shariah Banks.

1. BACKGROUND

Nugroho et al, (2017) argue, that the last five years (since 2012 – 2017) the development of Islamic banking in Indonesia still finds some obstacles that have not been completed. The market share of Islamic banks is low, being below 10% in 2017, and the supremacy of conventional banks ruling over more than 90% of the market share. Furthermore, according to Kassim and Majid (2010), Abdulle and Kassim (2012), Wahid and Dar (2016), Chakroun and Gallali (2015), Bourkhis & Nabi (2013) conventional banks and Islamic banks do not have significant differences in facing the crisis, furthermore Nugroho et al., (2017b) and Setyawati et al., (2017) the financial condition of Islamic banking industry companies is not better than conventional banking, this can be seen from the low asset quality as reflected in the ratio of non-performing loans (NPF/NPL). Information on NPF comparison of Islamic banking industry with conventional banking industry can be seen in Figure 1. as follows:

Figure 1. Non Performing Finance
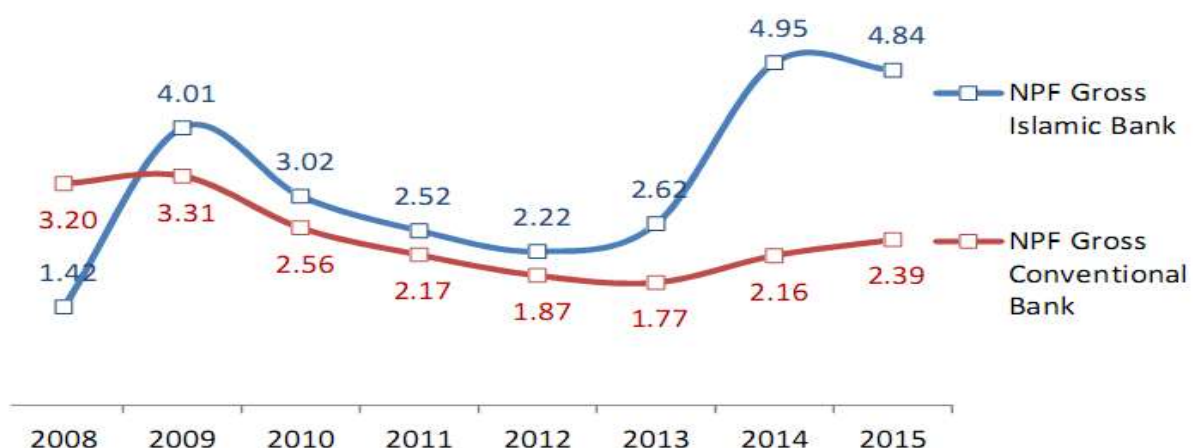
Source: Nugroho et al (2017)

From figure 1.1 above it can be understood that there is a significant increase in the ratio of non-performing finance in Islamic banking throughout 2008-2015, this shows how the quality of Islamic banking financing, NPF percentage increase increased from 1.42% in 2008 to 4.84% in 2015, this shows that there is a massive increase in NPF in the Islamic banking industry

grew by 341.85% over the past eight years. Moreover, when compared with the conventional banking industry, NPF in 2015 amounted to 2.39%, the NPF of Islamic banking industry is also higher than conventional banks, which amounted to 2.45%.

Selection of market segmentation in the distribution of financing plays a vital role to mengelevasi sales that will be able to boost the performance of the bank (Restuccia & Rogerson (2008) and Hsieh & Klenow, (2009). Islamic banks need to have business priorities in order to improve performance, for that it is necessary to choose an appropriate financing allocation strategy or commonly called segmentation strategy as presented by Mylonakis (2007). With the mapping and distribution of financing/ capital with the right target market and in market segments that have positive performance prospects, it can minimize problematic financing in banks (Allred, 2001). Furthermore, a study conducted by Ngari (2021) examined the effect of product loans on the asset quality of commercial banks in Kenya, with the aim of determining the effect of commercial loans, asset financing, vendor financing and real estate loans on the asset quality of commercial banks in Kenya. The research concluded that commercial loans, asset financing, vendor financing and real estate loans affect the asset quality of commercial banks positively and significantly. The study recommends that commercial banks should focus on reducing the rate of non performing loans because when diversifying the loan portfolio where there is a high credit risk. It can be understood that the disrtribution of financing in Islamic banking must be done more carefully, because as a Sharia institution, Islamic banks are expected to be able not only to manage assets but also to uphold Sharia values in their business practices, the concept of Islamic finance aimed at achieving social welfare and nature conservation (Arafat & Nugroho, 2016B, Shahinpoor, 2009; Rahim Abdul Rahman, 2010; Anas & Mounira, 2009) must be the foundation of Islamic banking operations.

Based on some research into this background, this next article will describe the relationship between Market segmentation that is proxied with Islamic finance products in Islamic banking with asset quality represented through the level of non-performing finance. Islamic finance products tested in this study are murabaha, mudharabah, Musharakah, and ijarah as independent variables and non-performing finance as the dependent variable.

2. HYPOTHESIS DEVELOPMENT

2.1. Asset Quality

Financing distributed to businesses and households is an asset to the bank. In the context of conventional banks, earning interest in the process of liquidity distribution on these assets is the most basic of their sources of income and profits, and defaulting financing is their main risk (Ngari, 2021), in the context of Islamic banks interest as an instrument that is forbidden in islam, is replaced by other profit distribution systems; service costs (ujroh), profit margins (profit), profit sharing (profit sharing), or increase in asset value. The higher this credit risk, the lower the quality of financing or asset quality (Westerhuis, 2016). When a bank experiences a depletion in its asset quality, it must hold more capital to cover credit risk in each of its financing products and book a higher allowance to prepare for potential losses. Asset quality is a major concern as many borrowers default on their loans and the volume of non performing troubled finance increases (Olokoyo, 2017). To mitigate the risk of loss and its impact on the health of the bank and its capacity to provide loans, the bank must follow solid lending criteria at all times, actively monitor asset quality, and proactively address non-performing loans (Truno, Stolyarov Auger & Assaf, 2017). In this research, asset quality is represented through the level of non-performance finance in Islamic banks.

2.2. Financing Products

Ngari (2021) divides the financing products in its research into four; commercial financing, real estate financing, asset financing, and vendor financing. Commercial financing is the provision of short-term loans for working capital, while real estate financing we know as home ownership loans, asset financing plural understood as leasing, while vendor financing is financing the procurement of goods as business capital. Vendor financing and commercial financing have similar properties, namely as short-term working capital.

In his research, Ngari (2021) suggested that the variables commercial financing, real estate financing, asset financing, and vendor financing had a positive and significant effect on non-performing loans (non-performing finance). The financing models that have been submitted by Ngari (2021) can be implemented into Islamic financing, in Islamic financing products, several financing contracts are known as quoted from Farhan (2022) as follows; Murabaha (sale and purchase) is the exchange of property in the form of transfer of property and ownership, murabaha transaction can be done either in cash or deferred (credit), its nature can be consumerist or productive financing, as the procurement of merchandise or consumerist goods only, Ijarah (lease) is

a contract of transfer of rights to the goods or services, through the payment of wages or rent without followed by the transfer of property rights to the goods themselves. Musharaka is an agreement of cooperation or mixing between two or more parties to run certain businesses that are lawful and productive with the agreement that the profits will be divided according to the agreed ratio and the risks borne in accordance with the portion of the same work. Mudharabah is: cooperation between two or more parties in capital and business, where one party as the funder and the other as the manager. Based on the review in the paragraph above, the hypotheses built in this research are as follows;

H1 = Murabaha significantly influence on non-performing finance
H2 = Mudharabah significantly affects non-performing finance
H3 = Musyarakah has a significant impact on non-performing finance
H5 = Ijarah significantly affects non-performing finance

Based on the hypothesis that has been prepared, the regression equation model to be tested in this study are as follows;

$$Y = a + b_1 MRBH + b_2 MDRB + b_3 IJRH + b_4 MSRK + e$$

Where
a = constant
b_1, b_2, b_3, b_4 = coefficient
MRBH = variable murabaha
Mdrb = mudharabah variable
IJRH = ijarah variable
MSRK = musyarakah variable
E = standard error

3. RESEARCH METHODOLOGY

The research approach used in this article is a quantitative approach, using multiple regression analysis as an analysis tool. The samples used are financial statement data from 4 Islamic banks from the period 2012 – 2020. The dependent variable in this research is non-performing finance which is formulated as follows;

$$NPF = \frac{\text{Bad Debt Expense}}{\text{Total Financing}}$$

Meanwhile, the independent variables are; murabaha financing assets, mudharabah financing assets, Ijarah financing assets, and Musharakah financing assets.

4. DISCUSSION

Descriptive Statistics

Figure 2. Descriptive Statistics

		MRBH	MDRB	MSRK	IJRH	NPF
N	Valid	40	40	40	40	40
Mean		15,625	13	15	12	3
Median		16	13	15	12	3

From the descriptive statistics above it can be seen that there are 40 financial statement data tested in this article. In the variable MRBH (Murabaha) shows the value of mean < median, 15,625 < 16, meaning that the sample used in this research has a lower average murabaha financing products compared to all samples used in this research.

In the variable mdrb (mudharabah) shows the value of mean = median, 13 = 13, meaning that the samples used in this study on average have the same murabaha financing products compared to all samples used in this research.

In the variable MSRK (Musharakah) shows the value of mean = median, 15 = 15, meaning that the sample used in this research on average have the same murabaha financing products compared to all samples used in this research. In the variable IJRH (ijarah) shows the value of mean = median, 15 = 15, meaning that the samples used in this research on average have the same murabaha financing products compared to all samples used in this research.

Multicollinearity Test

Figure 3. Multikolinieritas Test

	Tolerance	VIF
MRBH	0,43	2,30
MDRB	0,55	1,83
MSRK	0,71	1,41
IJRH	0,94	1,06

The classical assumption test requires that the data used should be free from the problem of multicollinearity. Conditions that indicate data free from multicollinearity is tolerance value > 0.01 and VIF <10.00. In figure 3 above it can be seen that the variables MRBH, MDRB, MSRK, and IJRH have tolerance values > 0.01 and VIF < 10.00. Thus, the data in this article has been freed from the problem of multicollinearity.

Regression Test Results

Figure 4. Normality Test

N		**40**
Normal Parametersa	Mean	5,44009E-16
	Std. Deviation	1
Most Extreme Differences	Absolute	0,121981722
	Positive	0,121981722
	Negative	-0,11061861
Kolmogorov-Smirnov Z		0,771480149
Asymp. Sig. (2-tailed)		0,591159695

The table above shows the results of the Kolmogorov-Smirnov normality test. Based on the results of the normality test above the Sig value. 0.59 > 0.05 thus, the data in this study have met the normal distribution requirements and meet the requirements of the classical assumption test.

Regression Test Analysis

Figure 5. Anova and R Square test results

R	**ANOVA(b)**
0,50314	.033a

The results of the R square test in this study showed a value of 0.503, meaning that the independent variable used in this study has an influence of 50.3% on the dependent variable, while the remaining 49.7% is influenced by other variables that are not tested in this study. In addition, in figure 5 can also be seen that the anova test results showed a sig value of 0.033 < 0.05, which indicates that simultaneously the variables murabaha, mudharabah, ijarah, and Musharakah significantly affect asset quality or in this research is represented by non-performing finance.

Figure 6. Hasil Regression Test

	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
		Std. Error		Beta		
(Constant)	-1,617979297	3,260388529			-0,4963	0,623
MRBH	-0,424635915	0,195867308	-0,480667457		-2,168	0,037
MDRB	0,072132368	0,235344508	0,060570354		0,3065	0,761
MSRK	0,30210866	0,178664611	0,293145808		1,69093	0,1
IJRH	0,471479619	0,180203365	0,394291642		2,61638	0,013

From the regression test results obtained values as attached to figure 6 above. Based on the values in the table, the regression model is formed as follows;

$$Y = -1.61 - 0.424 \text{ MRBH} + 0.072 \text{ MDRB} + 0.302 \text{ MSRK} + 0.471 \text{ IJRH} + e$$

Figure 6 shows the sig value. $0.037 < 0.05$ in Murabaha variable, which means that Murabaha variable has a significant influence on non-performing finance, the negative coefficient shows the direction of its influence on the dependent variable. The higher the murabaha financing, the lower the proportion of non-performing finance in Islamic banks. Meanwhile, the mdrb and MSRK variables (mudharabah and Musharakah) both have sig values of $0.761 > 0.05$ and $0.100 > 0.05$, respectively, this indicates that both variables do not have a significant influence on non-performing finance. While IJRH (Ijarah) has a sig value of $0.013 < 0.05$, which indicates that the variable Ijarah positively and significantly affect the variable non-performing finance, meaning that the greater the value of financing in ijarah, the proportion of non-performing finance in Islamic banks will be greater.

These findings are also relevant to the behavior of Islamic banking as a sample in this study in distributing financing products, as shown in the table below;

Figure 7. Sharia Bank Product Distribution Table

Financing Product	Average Composition					
	BNI Syariah	Mandiri Syariah	Muammalat	BRI Syariah	BCA Syariah	Avg
Murabaha	69%	53%	46%	59%	40%	53%
Mudharaba	5%	5%	3%	5%	9%	6%
Musyarakah	17%	21%	47%	29%	40%	31%
Ijarah	3%	1%	1%	3%	10%	3%
others	6%	20%	4%	4%	2%	7%

From the table above it appears that pambiayaan murabaha has the largest portion in distribution by Islamic banks, which was then followed by Musharakah. This behavior certainly illustrates the tendency of Islamic banks to avoid themselves from the increase in non-performing finance in the financing they do, the regression test results show that murabaha financing has a negative and significant effect on non-performing finance, which means that the tendency for murabaha financing to default or delay in repayment is relatively smaller than other financing products. It is also understood that murabaha and Musharaka have the largest share in their distribution compared to mudharabah or ijarah, because in murabaha and Musharaka financing which tends to be asset financing the bank has stronger collateral than mudharabah which is capital financing with a profit sharing scheme.

5. CONCLUSION

From the results of the regression test in the discussion can be concluded several things as follows; 1. Murabaha has a negative and significant effect on asset quality, thus H1 is accepted, 2. Mudharabah does not have a significant influence on non-

performing finance, thus H2 is rejected. 3. Musharakah does not have a significant effect on non-performing finance, thus H3 is rejected. 4. Ijarah has a significant influence on non-performing finance, thus H4 is accepted.

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2270 *Corresponding Author: Ali Farhan

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